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School District Credit Enhancement Program

Overview

The School District Credit Enhancement Program, provided for in Section 6-09.4-23 of the North Dakota Century Code (the “Program”), helps school districts reduce their cost of borrowing funds to finance projects. The Program provides for a limited state guarantee for the repayment of school district bonds which results in a higher credit rating for the school district and lower interest rates on its bonds. A school district must elect, by resolution of the school board, to participate in the Program.

Under the Program, if a school district is unable to make a bond payment, upon receipt of a notice of potential default, the state will make the payment three days prior to the bond payment date from funds due, or payable, or appropriated to the school district under Chapter 15.1-27 of the North Dakota Century Code.

To Participate

To participate in the Program, the district’s school board must adopt a resolution wherein the school district elects to participate in the Program, obligates the school district to be bound by the provisions of Section 6-09.4-23 and authorizes the withholding of state funds as required by the Program. The resolution must further provide that the election to participate in the Program is irrevocable so long as the evidence of indebtedness enhanced by the Program remains outstanding and unpaid.

The school district must also complete the Notice of Election to Participate in School District Credit Enhancement Program form, provide an opinion of bond counsel in the form required and provide a final Official Statement or bond payment schedule to NDDPI.

Both the Notice of Election form and the bond counsel opinion form are available from NDDPI.

The Notice of Election to Participate, a certified copy of the resolution and the opinion of bond counsel must be filed with NDDPI prior to the sale of the bonds and, after the sale of the bonds, the final Official Statement or a bond payment schedule must be filed with NDDPI.

Credit Rating

School Districts elect to participate in the Program to provide additional security for the bondholders

and thereby increase the credit rating of the bonds and reduce the bond interest rate. Because the Program operates on the strength and availability of state aid to provide for full and timely payment of debt service directly to a paying agent, the following should be included in the resolution establishing the terms and conditions for the bond issue:

1. Appointment of an independent paying agent;
2. Designate February 1 and August 1 as interest payment dates and August 1 as the principal payment date;
3. Require the school district to deposit a bond payment with the paying agent five days before the payment date to the bondholders;
4. Certify that the state funds available to the school district under NDCC Chapter 15.1-27 are at least 2 times the maximum annual debt service on the bonds; and provide for an additional bonds test requiring at least 2 times coverage of the maximum annual debt service for all outstanding bonds and subsequent bonds issued under the Program.

Contact NDDPI

Contact School Finance at (701) 328-2260 with any questions about the Program.